

Corporate & Financial Weekly Digest

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[CFTC Provides Clarification on Regulation 1.25 with Respect to Suspension of Money-Market Mutual Fund Redemptions](#)

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In a letter to the Chicago Mercantile Exchange dated June 3, the Commodity Futures Trading Commission has provided guidance on the potential impact of newly adopted Securities and Exchange Commission Rule 22e-3 on the investment of customer segregated funds, by futures commission merchants (FCMs) and derivatives clearing organizations (DCOs), in money-market mutual funds (MMMFs) under CFTC Rule 1.25. SEC Rule 22e-3 authorizes MMMFs to suspend redemptions if necessary to facilitate an orderly liquidation of the fund.

Rule 1.25 generally permits customer segregated funds to be invested in an MMMF, subject to the requirement that any such MMMF be “legally obligated to redeem an interest and to make payment in satisfaction thereof by the business day following a redemption request.” Among the exceptions to this next-day redemption requirement is the existence of “emergency conditions,” as “set forth in Section 22(e) of the Investment Company Act of 1940.” Section 22(e) allows the SEC to “by rule or regulation determine the conditions under which (i) trading shall be deemed to be restricted and (ii) an emergency shall be deemed to exist....”

The CFTC has determined that SEC Rule 22e-3 qualifies as a “rule or regulation” under Section 22(e) describing when an emergency condition will be deemed to exist. Consequently, FCMs and DCOs may continue to invest customer funds in an MMMF that otherwise qualifies as a permitted investment under Rule 1.25, notwithstanding the right of the MMMF to suspend redemptions to facilitate an orderly liquidation of the fund.

The CFTC Staff Letter providing the interpretation can be found [here](#).

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